

## Unexpected dip in UK inflation unlikely to halt a May rate hike

The latest UK inflation data is unlikely to get in the way of a May rate hike, but a further deceleration in core CPI over coming months could prove to be a headache for policymakers later in the year



Source: Shutterstock

For a second month running, UK core inflation has disappointed market expectations and will come as a blow to some Bank of England hawks. Admittedly some of the latest unexpected fall in core CPI to 2.3% can be explained away by quirks. For instance, airfares actually fell in March despite the early Easter – a seasonal pick-up in travel costs was a key reason why many analysts, ourselves included, had looked for a temporary pick-up in inflation today. The fact that the government made no changes to alcohol/tobacco taxation in March (given the move to a November budget) also reportedly weighed on the data.

But fundamentally, core inflation is falling because prices have now virtually adjusted to the post-Brexit plunge in the pound. We can see this most evidently in the prices of currency-sensitive goods like TVs and computers, which are now falling increasingly rapidly. For this reason, we think the only way is down for core inflation and we expect it to be more-or-less back to target by the summer.

At face value, this takes some of the pressure off the Bank of England to tighten policy over coming months. But [as we discussed yesterday](#), wage growth is central to the Bank's thought

process when considering inflationary pressures, and the recent data has been surprisingly strong.

That means a May rate hike still looks like an increasingly done deal, but what comes thereafter is far less clear. Policymakers have appeared to talk up the prospects of a second rate hike later in the year, so a November move certainly shouldn't be ruled out. But Brexit still has the potential to get quite noisy around the time of October's EU summit, while the economy is still struggling to get up to speed. The consumer sector remains a particular source of vulnerability, and we might see further evidence of this in tomorrow's retail sales numbers.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.